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SUBJECT: THE TRADE BANK OF IRAQ IN SULAIMANIYAH, IRAQI KURDISTAN

REF: BAGHDAD 3812

This is a Kurdistan Regional Reconstruction Team (RRT) cable.

¶1. (SBU) SUMMARY. The Sulaimaniyah Branch Manager of the Trade Bank of Iraq (TBI) wants decentralization of banking approval authority. He suggested that a local TBI branch be able to carry out payment transactions, grant loans and issue letters of credit. He also recommended that the TBI branch have its own loan policy which would accommodate a wide range of clients to include the middle class and the need for smaller size loans. The Chairman of the Sulaimaniyah Chamber of Commerce noted that the lack of an international banking system at the regional level has discouraged deposits and encouraged the operation of an unofficial dollar market. END SUMMARY

TRADE BANK OF IRAQ

¶2. (U) RRT Off met with Dlawar N. Mahmood, Sulaimaniyah Branch Manager of TBI on March 29. By way of background, created in November 2003, TBI is owned by the Government of Iraq and receives technical and managerial support from an international consortium led by JPMorgan Chase. TBI generates letters of credit for government ministries, provincial entities, private companies and state-owned enterprises. TBI is the only corporate bank working with foreign banking institutions. With its main office Baghdad, TBI opened a branch in Sulaimaniyah in September 2006. Other TBI branches are located in Basrah, Baghdad and Irbil.

CALL FOR A TBI REGIONAL BANK

¶3. (SBU) Dlawar Mahmood stressed the need for the Sulaimaniyah branch of TBI to have full authority to do transactions, generate letters of credit, give loans, and be a member of the Society for Worldwide Interbank Financial Telecommunication (SWIFT).

¶4. (SBU) He suggested having one of the TBI branches be a regional bank which would serve the Iraqi Kurdistan provinces but also clients from neighboring areas --Mosul, Kirkuk and Tikrit. The TBI bank in Iraqi Kurdistan, he added, has the capability of assuming this role in terms of infrastructure and personnel. And foreign companies operating in the region, for instance Italian and Canadian companies involved in the hydrocarbon sector, would greatly benefit from a regional bank with approving authority.

CHANGE IN LOAN POLICY

¶5. (SBU) Dlawar Mahmood also recommended changing the loan policy of the TBI Sulaimaniyah bank branch. He noted the need to lend to middle-class parties instead of limiting business to top corporate players. The large clients do not help develop the private sector on a provincial level, he added. Instead of lending one loan at ten million dollars, he noted, granting ten loans each at one million dollars would better promote economic growth and private sector business. Mahmood admitted this requires more research into the clientele but his bank management is in a strong position to minimize those costs given their proximity to the clientele and local business knowledge.

NEED FOR LIQUID CASH

¶6. (SBU) Mahmood emphasized the need for more liquidity in the market. He noted, for example, that the agricultural sector was reduced to a minimum under the regime of Saddam Hussein and now needs cash to start again and modernize. Although clients are forced to use the unofficial dollar market (reftel), most of them would prefer to use a bank to transfer money and carry out their investment activity. In this respect, he noted clients operating in the region will be assured the money is clean. As relations between the US and Iran are difficult, he added, all parties would benefit from the institutionalization of the dollar market the empowerment of local banks.

RESORT TO THE DOLLAR MARKET

¶7. (SBU) Sirwan Haji M. Hawaey, a businessman and First Deputy of the Chamber of Commerce, Sulaimaniyah, noted he had tried to open a letter of credit through the current banking system and it took three months, incurred administrative costs, errors regarding the order, 100 percent deposit requirement and cuts taken by corresponding banks. In the interest of time and effort, he canceled the letter of credit and resorted to the unofficial dollar market and put cash payment in a taxi to be taken across the Turkish border. He remembered that during the Saddam regime, only five percent was required to take out a letter of credit, whereas now a 100 percent deposit is necessary.

VISA CARD

¶8. (SBU) As for the TBI Visa card, it is a debit card, Mahmood clarified. It is printed in the United Kingdom and approved in Baghdad. There are two ATM machines in Sulaimaniyah, one at the

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airport and one at the TBI Sulaimaniyah bank branch. There is a plan to put an ATM in two up-scale hotels in Sulaimaniyah.

NEED TO PROMOTE SMALL BUSINESS

¶9. (SBU) The Chairman of the Chamber of Commerce, Hassan Hawrami, echoed statements made by Mahmood with respect to promoting private local banks. Hawrami underscored the need to encourage small project loans to local businesses. For economic development, he said that the six local banks operating in Sulaimaniyah need to increase their capacity to attract clients. Hawrami recommended local private banks enter into joint ventures with foreign companies and be able to function with approving authority and serve a wide range of clients including middle-class clients with small projects.

PROMOTE PRIVATE SECTOR INVESTMENT

¶10. (SBU) The Chairman of the Chamber of Commerce suggested to RRT Off that an international bank be established in Iraq and operate independently of the central government. Hawrami also noted that if redundant and excess government employees were moved out of their positions into the private sector, this would promote economic growth. It is important, he added, to teach the government employees a new profession through training programs before transferring them from the public to the private sector and into fields such as agriculture, industry and tourism.

COMMENTS

¶11. (SBU) A regional branch of TBI with approving authority would be effective for promoting direct foreign investment and for improving risk assessment of local clientele. In light of a limited banking culture, currently the average client uses the bank as a cash box or for currency conversion only. And as the dinar is getting stronger, clients are more hesitant to deposit their money in banks. This contributes to a pent-up demand for credit.

¶12. (SBU) Both government and privately owned banks are frustrated with the centralized banking system. Centralizing approval authority is intended to alleviate concerns over money laundering.

However, it has the effect of squeezing out middle-class clients and small businesses which can contribute to private sector growth. The lack of regional or provincial authority in the banking system is a disincentive to deposit funds and contributes to the development of an informal dollar market that has no official controls. Regional and provincial banks have the know-how to loan to lend funds to creditworthy local businesses and monitor their risks more than banks in Baghdad.